

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name District Court No. 38	County Macomb
Audit Date 6/30/05	Opinion Date 7/19/05	Date Accountant Report Submitted to State: 9/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C. David M. Jones</i>			Date 9/29/05

**38th District Court Funds
City of Eastpointe, Michigan**

FINANCIAL STATEMENTS

June 30, 2005

38th District Court Funds
City of Eastpointe, Michigan

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Principals

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INDEPENDENT AUDITOR'S REPORT

Honorable Judge Norene Redmond
Chief Judge, 38th District Court
16101 Nine Mile Road
Eastpointe, Michigan 48021

We have audited the accompanying statement of assets and liabilities of the 38th District Court Funds (a component unit of the City of Eastpointe, Michigan) as of June 30, 2005. This financial statement is the responsibility of the District Court's management. Our responsibility is to an express opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statement presents only the 38th District Court Funds, and do not purport to, and do not, present fairly the financial position of the City of Eastpointe, Michigan, as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statement referred to above presents fairly, in all material respects, the financial position of the 38th District Court Funds as of June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statement. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The accompanying financial statement of the 38th District Court Funds does not present a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statement.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2005

BASIC FINANCIAL STATEMENTS

38th District Court Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2005

	Agency Funds	
	Depository	Bond, Restitution, and Trust
ASSETS		
Cash	\$ 217,226	\$ 85,259
LIABILITIES		
Due to:		
State of Michigan	\$ 45,954	\$ -
Macomb County	1,815	-
City of Eastpointe	169,457	-
Others		
Bonds, restitution, and trust	-	85,259
	\$ 217,226	\$ 85,259

See accompanying notes to financial statements.

38th District Court Funds
City of Eastpointe, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the 38th District Court Funds (the "District Court") has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The District Court is governed by one elected judge. There are no component units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District Court's more significant accounting policies are described below.

1. Reporting Entity

The accompanying financial statement presents only the Agency Funds of the 38th District Court, and does not purport to, and does not, present fairly the financial position of the City of Eastpointe, Michigan, as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, nor does it include other revenue sources attributable to the District Court's operations (i.e., judicial salary subsidy, juror reimbursements, computer installation reimbursements, drunk driving caseload, and drug caseload reimbursements). The receipts and disbursements of the Agency Funds of the District Court are accounted for with a separate set of self-balancing accounts that comprise its assets and liabilities.

2. Basis of Presentation

The funds of the 38th District Court are Agency Funds. The financial activities of the funds are limited to fine and fee collections that are transferred to the Funding Unit (City of Eastpointe) when processed and bonds and restitution collections that are subsequently returned or paid to third parties by the District Court. The accumulation of fine and fee collections and the ultimate payment to the applicable agencies are the responsibility of the Funding Unit. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

The operations of the District Court are included as a separate activity in the General Fund of the City of Eastpointe. The District Court is a component unit of the City of Eastpointe and is included in the basic financial statements of the City as of and for the year ended June 30, 2005.

3. Cash

The District Court Funds' cash consists of checking accounts, with balances totaling \$302,444 at June 30, 2005.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the District Court is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

38th District Court Funds
City of Eastpointe, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. As of June 30, 2005, the carrying amount of the District Court's deposits was \$302,444 and the bank balances totaled \$306,266. Two bank accounts are maintained in the name of the 38th District Court and one account is maintained in the name of the City of Eastpointe. As of June 30, 2005, the bank accounts maintained in the name of the District Court were insured by the FDIC for \$100,000 and the amount of \$203,714 was uninsured and uncollateralized.

Because one bank account is maintained by the City of Eastpointe, a portion of the District Court's cash is potentially covered by FDIC along with other deposits of the City of Eastpointe, limited to \$100,000 in total deposits by bank account type for each bank customer. It is not practical to determine what portion of the District Court's remaining \$2,552 is insured.

NOTE C: SIGNIFICANT FINANCIAL-RELATED EVENTS

On March 30, 2005, the management of the 38th District Court had proposed to the Eastpointe City Council a budget for the fiscal year ending June 30, 2006, that included projected revenues of \$2,145,324 and projected expenditures of \$1,338,474. The Eastpointe City Council adopted its budget for the fiscal year ending June 30, 2006 on June 21, 2005. Included as part of that budget were projected District Court revenues of \$1,840,964 and projected District Court expenditures of \$929,949. The 38th District Court declared an impasse and invoked Michigan Supreme Court Administrative Order 1998-5, notifying the State Court Administrative Office on June 22, 2005.

Michigan Supreme Court Administrative Order 1998-5 states, in part, "If, after the local funding unit has made its appropriations, a court concludes that the funds provided for its operations by its local funding unit are insufficient to enable the court to properly perform its duties and that legal action is necessary, the procedures set forth in this order must be followed.

38th District Court Funds
City of Eastpointe, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE C: SIGNIFICANT FINANCIAL-RELATED EVENTS - CONTINUED

1. Legal action may be commenced 30 days after the court has notified the State Court Administrator that a dispute exists regarding court funding that the court and the local funding unit have been unable to resolve, unless mediation of the dispute is in progress, in which case legal action may not be commenced within 60 days of the commencement of the mediation. The notice must be accompanied by a written communication indicating that the chief judge of the court has approved the commencement of legal proceedings. With the notice, the court must supply the State Court Administrator with all facts relevant to the funding dispute. The State Court Administrator may extend this period for an additional 30 days.
2. During the waiting period provided in paragraph 1, the State Court Administrator must attempt to aid the court and the involved local funding unit to resolve the dispute.
3. If, after the procedure provided in paragraph 2 has been followed, the court concludes that a civil action to compel funding is necessary, the State Court Administrator must assign a disinterested judge to preside over the action.
4. Chief Judges or representatives of funding units may request the assistance of the State Court Administrative Office to mediate situations involving potential disputes at any time, before differences escalate to the level of a formal funding dispute."

OTHER SUPPLEMENTARY INFORMATION

38th District Court Funds

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2005

Depository Account	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
ASSETS				
Cash				
Fines and costs	\$ -	\$ 2,584,219	\$ 2,367,082	\$ 217,137
Interest	-	411	322	89
	<u>\$ -0-</u>	<u>\$ 2,584,630</u>	<u>\$ 2,367,404</u>	<u>\$ 217,226</u>
LIABILITIES				
Due to:				
State of Michigan				
Department of Treasury	\$ -	\$ 476,259	\$ 432,375	\$ 43,884
Secretary of State	-	35,180	33,110	2,070
Macomb County	-	20,546	18,731	1,815
City of Eastpointe				
General receipts	-	2,051,908	1,882,540	169,368
Interest	-	411	322	89
Others				
ABN/AMBRO	-	321	321	-
Charter One Bank	-	5	5	-
	<u>\$ -0-</u>	<u>\$ 2,584,630</u>	<u>\$ 2,367,404</u>	<u>\$ 217,226</u>

Bond, Restitution, and Trust Account

ASSETS				
Cash	<u>\$ 103,504</u>	<u>\$ 1,020,336</u>	<u>\$ 1,038,581</u>	<u>\$ 85,259</u>
LIABILITIES				
Due to others (open bonds)	<u>\$ 103,504</u>	<u>\$ 1,020,336</u>	<u>\$ 1,038,581</u>	<u>\$ 85,259</u>

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MANAGEMENT LETTER

Honorable Judge Norene Redmond
Chief Judge, 38th District Court
16101 Nine Mile Road
Eastpointe, Michigan 48021

Dear Judge Redmond:

As you know, we have recently completed our audit of the records of the 38th District Court Funds as of June 30, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Additional segregation of duties and/or greater supervisory review and oversight should be considered with regard to the process of deleting case file records.

During the course of our audit, we noted that only the Court Administrator has the ability to delete case file records from the automated system and is also responsible for reviewing case file deletion reports, preparing bank deposits, and performing bank reconciliations.

Paragraph C5 of section 6-05, Michigan Court Administration Reference Guide, states: "Employees who are involved in opening the mail, receipting payments, balancing the accounting records and performing the bank reconciliation should not have the capability to delete case files, make adjustments to payment records or modify court orders in the automated system."

We suggest that employees be restricted as to the functions they are able to perform in the system. Only those supervisors who are not involved in the mail opening, receipt, disbursement, daily balancing, and bank reconciliation processes should have the ability to delete case files. Additionally, the court should establish procedures that will provide for the independent supervisory review and monitoring of reports that reflect case files that have been deleted.

Court management must realize and accept that a greater risk in safeguarding assets will exist if the Court Administrator continues to be involved in the case file deletion process and is responsible for the review of deleted case file reports, preparation of bank deposits, and performing bank reconciliations.

2. Additional segregation of duties and/or greater supervisory review and oversight should be considered with regard to the process of account adjustments.

During the course of our audit, we noted that only the Court Administrator has the ability to make adjustments to case file records in the automated system is also responsible for reviewing account adjustment reports, preparing bank deposits, and performing bank reconciliations.

Paragraph C5 of section 6-05, Michigan Court Administration Reference Guide, states: "Employees who are involved in opening the mail, receipting payments, balancing the accounting records and performing the bank reconciliation should not have the capability to delete case files, make adjustments to payment records or modify court orders in the automated system."

We suggest that employees be restricted as to the functions they are able to perform in the system. Only those supervisors who are not involved in the mail opening, receipt, disbursement, daily balancing, and bank reconciliation processes should have the ability to make adjustments to case file records in the automated system. Additionally, the court should establish procedures that will provide for the independent supervisory review and monitoring of reports that reflect case files that have been adjusted.

Court management must realize and accept that a greater risk in safeguarding assets will exist if the Court Administrator continues to be involved in the case file adjustments process and is responsible for the review of account adjustment reports, preparation of bank deposits, and performing bank reconciliations.

3. The District Court should consider a policy requiring employees in positions of trust to take annual vacations during which time their duties would be performed by other personnel.

The District Court currently does not require employees in a position of trust to take annual vacations, however there is a "use or lose" policy in place whereby employees forfeit used vacation time on an annual basis.

Paragraph D3 of section 6-05, Michigan Court Administration Reference Guide, states: "In addition, employees in positions of trust should be required to take annual vacations during which time their duties are performed by other personnel."

We suggest the District Court consider implementing a policy requiring employees in positions of trust to take annual vacations, during which time their duties should be performed by other personnel.

4. Additional security measures should be considered when transmitting bank deposits.

During the course of our audit, we noted that the District Court currently does not utilize an armored car service or a police escort to transmit deposits to their financial institution.

Paragraph F7(p) of section 6-05, Michigan Court Administration Reference Guide, states: "Proper security should be utilized for the transmission of the deposit to the bank or funding unit."

We suggest additional security measures be considered for the transmission of deposits from the District Court to the bank, including but not limited to consideration of contracting an armored car service or police protection.

5. Unreconciled bank reconciliation differences should be adjusted appropriately in accordance with the Michigan Court Administration Reference Guide.

One of the District Court's outstanding bond bank accounts reflects an unreconciled difference of approximately \$41 as of June 30, 2005.

Paragraph E4(d.6) of section 6-05, Michigan Court Administration Reference Guide, states: "Unreconciled differences between the bank statement balance and the court book balance should be resolved on a timely basis. Should an unreconciled difference exist which cannot be found, the unreconciled difference should be properly adjusted through the local funding unit or court's operational budget on an annual basis."

We suggest that this difference be resolved or that it be properly adjusted in order that the book balance is brought into agreement with the reconciled bank statement balance.

6. Installment receivables should be reviewed for progress and enforcement.

During our testing of probation and non-probation receivables, we noted two (2) instances where the District Court had not monitored and provided adequate enforcement in the collection of fines, costs, fees, and restitution due to the court. The District Court's internal procedures are to send a "show cause" letter after the receivable has become delinquent and a bench warrant issued when there is no response. In the exceptions noted, no "show cause" had been sent and no bench warrant was issued.

Regarding receivables, paragraph I1(c) of section 6-05, Michigan Court Administration Reference Guide, states: "The court should have a procedure that enforces and monitors the collection of fines, costs, fees and restitution."

We suggest the District Court properly review, monitor, and enforce the collection of installment payments due to the court.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated July 19, 2005.

This report is intended solely for the use of the Chief Judge and management of the 38th District Court and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2005